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HOW TO PROFIT IN BULLISH AND BEARISH MARKETS AT THE SAME TIME

BY JOHN PERSON

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How to Profit in Bullish and Bearish Markets at the Same Time

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Many traders struggle with their short terms trades against a longer term outlook. Take for example the stock market. If you have had a longer term bullish outlook in 2011 then taking buy signals might not have worked as the market took on a dramatic trading range. Bullish breakout strategies proved to be financially destructive, especially since the yearly high was made on May 2nd. Buying dips seemed to be fruitless at times as traders discovered that their ideas that "the market couldn't possibly go any lower" were unfortunately crushed to find out that yes the market can and did go much lower than most assumed. It is interesting to see that in all the volatility the S&P 500 ended the year mostly unchanged. But yet it did not crash and burn as many were predicting. Therefore a bull had a better chance at profiting at years end than did a bear.

Indeed a well balanced trader can and should be able to take short term trades against a longer term outlook or investments. It pays to "fight the tape" at times and there is no better market environment that a trading range to engage in that type of trading style.

Contrarians take the opposing sides of the masses. Meaning if the overall crowd is bearish then a contrarian would want to take sell signals. It is true that it is more profitable to trade with the trend, but there are times when one wants to take sell signals in overbought market conditions.

So what defines overbought and what are the right circumstances to enhance your odds of profitability when taking a "contrarian "trade?

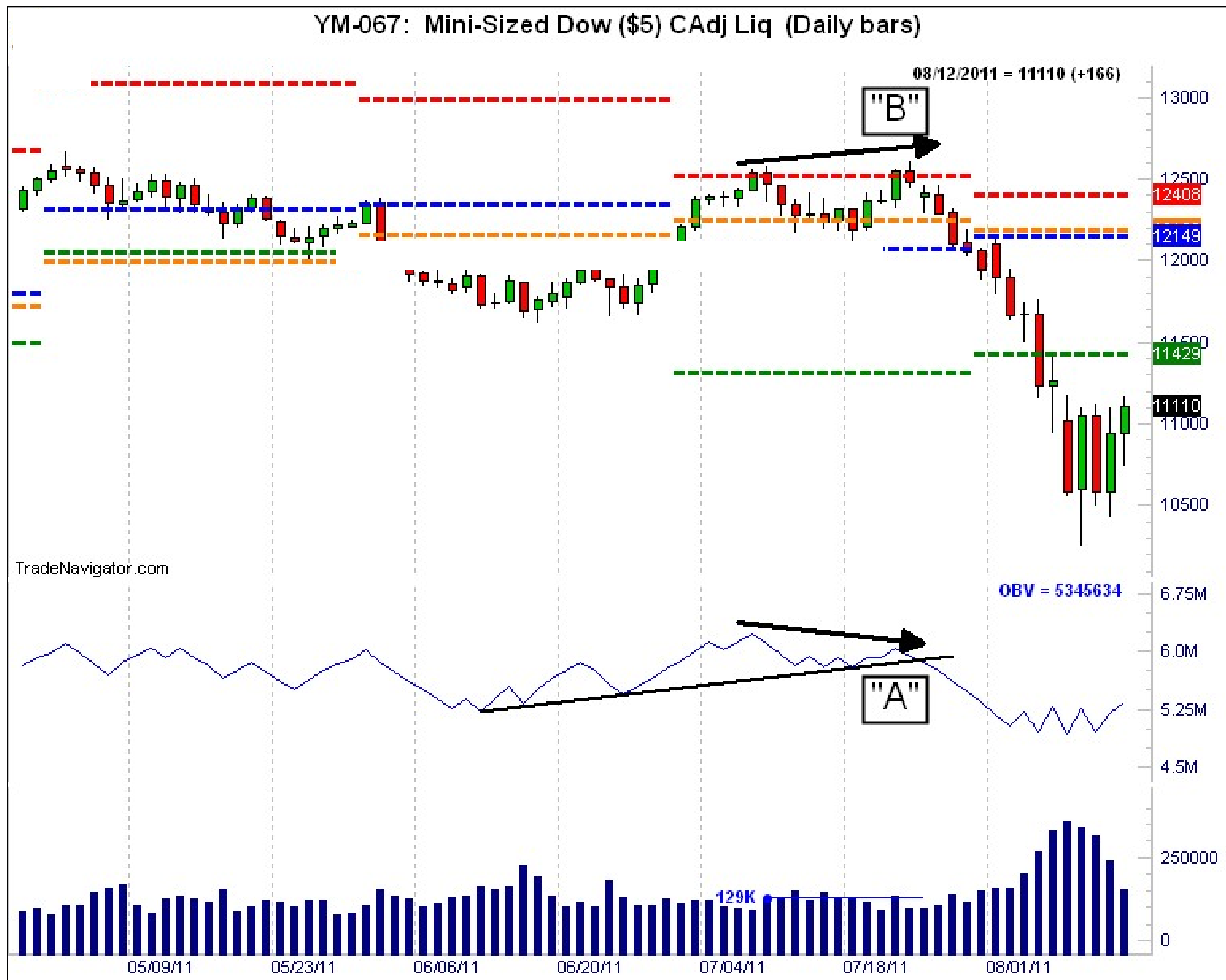
For starters one can use many tools and oscillators to look for overbought conditions. Pivot Point analysis along with Fibonacci extension price targets are two of the best forward looking or leading price indicators to help spot resistance levels to take short trades against. As for Oscillators, Stochastics developed by George Lane, the Relative Strength Indicator developed by Wells Wilder, and larry Williams indicator aptly named Williams %R are all useful tools to help identify overbought conditions in a bull trend.

As the creator of the "Personal Investment Hour" I had the opportunity to interview many colleagues, and present to the general public various indicators created by the specific creators like John Bollinger of Bollinger Bands and trading styles from Jake Bernstein, John Murphy, Myself as well as Lan Turner, amongst a host of others.

Personally I find several conditions and indicators very useful when trading around my core or longer term positions.

For starters I look to take short term day or swing trades at or near a monthly, weekly or daily Pivot point resistance level, especially after a significant rally. Next, I use other or a different non-correlated yet confirming technical tool and a price condition call divergence. Under a trending market condition I

like to see the overall health of that move. Was it under light volume or heavy volume. A higher price move on light volume suggests to me that the market has run it's course and we finished running buy stops or the shorts have been squeezed and there are no more new fresh buyers. On the other hand if after a lengthy rally or run -up in prices we see the move on a heavier spike in volume that tells me we could be seeing an exhaustion rally.



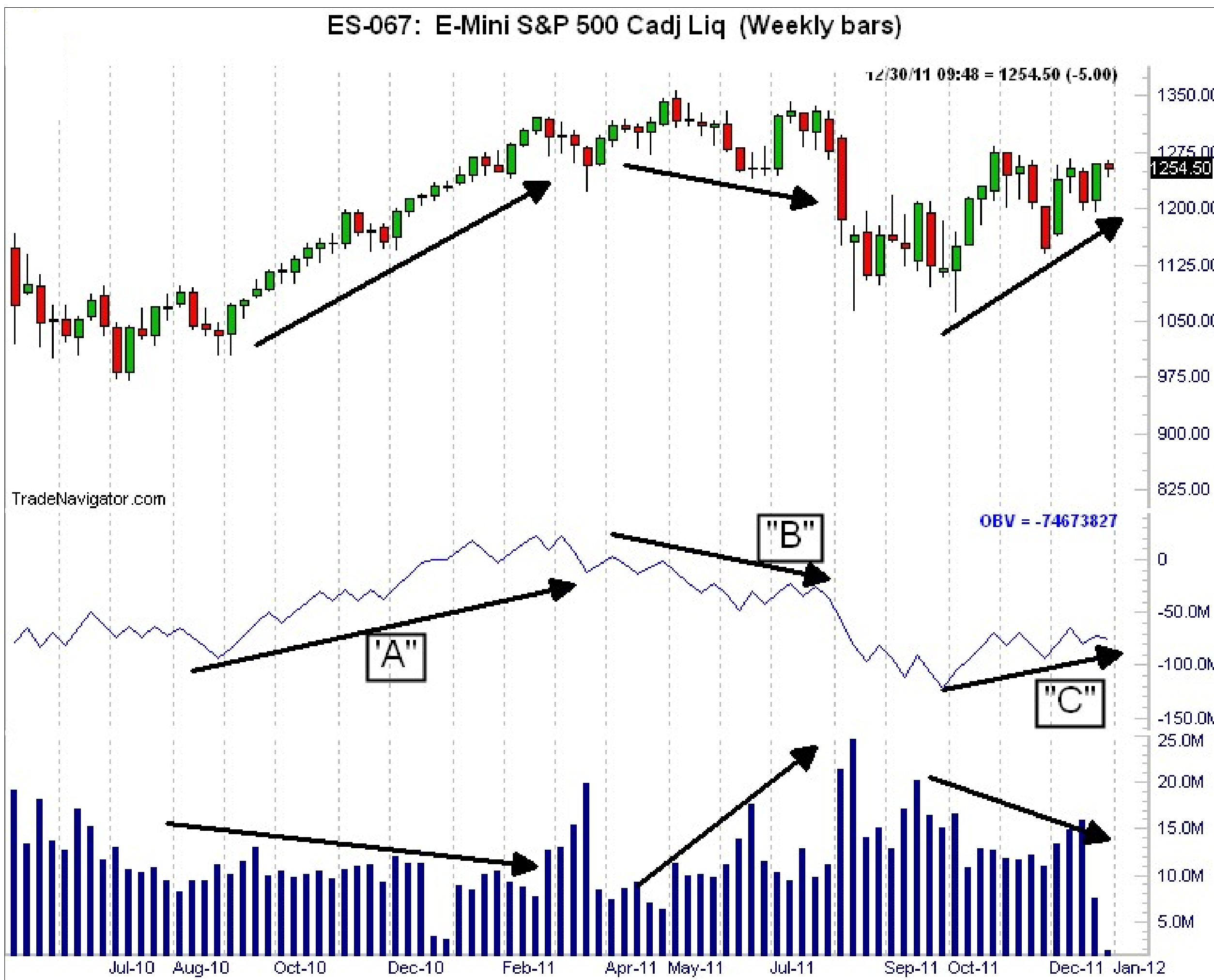
So with that said studying volume is important but using typical volume analysis does dot help me identify the volume trend as it once did more that 20 years ago. One reason is I suspect more derivative traders are using options and Exchange Traded Funds so trends in the trading volume bars may not show as well. Therefore I use an older volume tool known as On Balance Volume, created by Joe Granville back in the early 1970's.

Examine the chart above in figure 1. We have a daily chart on the mini-Dow, using monthly pivot point analysis overlaid on the candle chart. In the lower quadrant we have the On Balance Volume indicator and then on the bottom quadrant we have the volume bars. If one believes that longer term the market can rally but wants to take a short term sell then this is a perfect set-up. For starters seasonally the stock market is bearish from May through Slate September time frame, but we had a classic bearish divergence set-up.

In July the Dow made a secondary higher high as marked "B: on the chart , On balance Volume showed a lower secondary high thus making the bearish divergence from indicator to price. Notice the volume bars they do not offer much if any indication that the rally was on declining volume. In fact if at best the volume showed a capitulation at the end of the market price decline as we see excessive volume as prices were forming a bottom. IT was the On Balance volume indicator that diverged against a newer price high that alerts a longer term Bull to be a short term Bear!

A case in point in regards to why I believe traders struggle with volume, look at the chart below in figure 2.

Point "A" on the chart shows the uptrend in prices from mid 2010 through early 2011. The rally was as described on "light volume". However On Balance Volume was trending higher with prices painting a totally different and yet clearer picture. As prices continued higher we see a bearish divergence pattern



develop between Price and the OBV indicator. Notice the time period marked point "B" on the chart, the actual volume picks up giving a false sense that the market rally was healthy when in fact OBV was declining showing a bearish picture. As we headed out of 2011 into 2012. The stock market has recovered from negative nine percent made from the lows in late September early October to nearly one percent gain on the year (as of 12-29-2011). On balance volume clearly shows the uptrend is healthy, but volume once again gives a different picture. At point "C" on the chart shows OBV is rising with a rise in price while volume is declining. Personally I trust the OBV nowadays rather than volume; however I use the volume to spot heavy volume or light volume price moves.

For those stock traders reading this article, you are probably aware that McDonalds (MCD) was a tremendous performer in 2011.

However there were the doubters the short sellers, the health food folks that wanted to short this market as the rally was on light volume. For those who used the OBV indicator, they had a better understanding that the rally was healthier than the outright volume studies showed. The volume trend was lower but the OBV trend was higher.

In all fairness though, at the time this article was being written MCD was forming a potential bearish divergence with the OBV indicator. The market was trading above it's monthly Pivot Point Resistance, which would act as new support. If we break below that in the coming New Year we could see a healthy correction. Notice point "A" on the charts. On 12-12-2011 when (MCD) made a high of 98.53 the OBV indicator had a reading of 1,949,000, on 12-27-2011 when the market made a newer closing high of 100.82, see where the OBV indicator is not even close to making a subsequent higher high? This is the potential Bearish Divergence that is being created. It is my guess that anyone who has been long (MCD) all year, and this entire decade for that matter might take a profit after the first of the year. This is a move done to defer capital gains in to 2013, rather than April 15th.

Conclusion:

It is best to always use non correlated indicators to make trading decisions, yet make sure you use ones that make sense from a logical standpoint. For me it is logical since more traders use ETF's and Options Strategies that would mask the overall volume in trading. Therefore That is why I like to use the OBV indicator. As well I can clearly see the trend and I can "chart" the indicator. Meaning I can draw trendlines and watch for trend confirmation and well as trend decoupling effects like a divergence pattern.

MCD: McDonald's Corporation (Daily bars)

12/29/11 09:40 = 100.27 (+0.69)

OBV = 1938344045

"A"

1949000K

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11/14/11 11/29/11 12/13/11 12/28/11

I wish you all well in 2012 and beyond.

Sincerely,
John Person
Founder Nationalfutures.com
Investment Services and
Education

John Person has been actively trading stocks, futures and foreign currency markets for 31 years. He has published three books through John Wiley and Sons, and publishes a monthly and weekly newsletter. He is the founder of an the investment advisory service at www.NationalFutures.com, and is the host of Personal Investors Hour. Reach him at jperson@nationalfutures.com

The Four BIG Benefits of Currency Trading

by Scott Brown

There's a massive flood of Forex courses on the market today. And, there's good reason for it. Forex offers substantial advantages above and beyond leverage controlled investments in equities and futures.

Let me explain...

The Big 4 Benefits of Currency Trading

Reason 1: 24 Hour Market Liquidity.

The inter-bank foreign exchange [Forex] market is the most liquid and widely traded in the world. Daily volume is more than $1.5 trillion, over 30 times the volume of the NYSE. Buyers and sellers make markets 24-hours a day creating a massive international market. The consistent liquidity of this market lets currency traders have the ability to enter and exit trades no matter the size nor time of day.

Reason 2: Low Transaction Costs. Overall, currency trading has much lower trading costs than equities and futures. The over-the-counter nature of the currency market eliminates exchange and clearing fees. Costs are lowered further by the electronic marketplace where you deal directly with the market maker cutting out ticket costs and middlemen. Since the currency market operates around the clock you get tight, competitive spreads both intraday and over-night. Equity [stock] and futures traders are more vulnerable to liquidity problems and get wider dealing spreads - especially after hours.

Reason 3: Trending Markets.

Currency trading pairs rarely spend much time in tight trading ranges and have the tendency to develop strong trends. Over 80% of the volume in Forex is speculative and as a result, the market frequently overshoots and then corrects itself. A technically trained trader can easily identify new trends and breakouts, which give you multiple opportunities to enter and exit positions.

Reason 4: Ability to Trade Either Up Or Down Markets.

Unlike the equity market, there's no restriction on short selling in the currency market. Since currency trading is simultaneous buying of one currency and selling of another, there's no structural bias to the market - like the well known bullish bias of equities. This means that you can sort the market regardless of direction, creating opportunities in both bullish up and bearish down markets.

It All Starts With Education!

You have to train yourself first to succeed as a currency trader. There's so much interest in Forex that every marketer has been popping up a Forex course with no experience in the subject. The bewildering array of different

online courses is very dangerous for you.

If you aren't properly trained you'll lose your savings, get frustrated, never trade again, and very likely leave behind this opportunity to trade Forex that could free you financially. This market can free you financially. In fact a colleague of mine cashed out her home recently by trading currency.

But she was only able to do so because she carefully educated herself first. So, here's a run down of do's and don't when it comes to evaluating a Forex course.

The DO'S Of Selecting A Forex Currency Trading Course

First: Do plan on committing significant time in the beginning to master your skills in trading Forex. The biggest single mistake beginners make is not getting a good education. This includes mastering technical analysis like moving averages, Fibonacci numbers, Gann Fans, Elliot Waves, Stochastics, and the MACD.

It also includes learning the fundamentals like the Big Mac index, purchasing power parity, interest rate parity, and balance of payments accounting between two countries in currency pair.
When evaluating a Forex course make sure it teaches you both fundamental and technical analysis of the stock market.

Second: Do plan on making mistakes - particularly at the beginning. Make sure you learn money management - which is nothing more than keeping your trades small relative to your total bankroll. There's a lot to learn to become a successful Forex trader but you can do it quickly if you put your mind to it.
When evaluating a Forex course make sure it teaches you money management.

Third: Do plan on trading with the major trend. You should only be trading Forex for big money. Many traders get beaten down and end up trading for very small profits. Over the long haul they burn out and leave currency Forex trading forever. Forex currency trading is a way to take small amounts of money - like $5,000 - and turn it into big money - such as $3.35 million. Don't Forget This!
When evaluating a Forex course make sure it teaches you how to capitalize on really big moves.

The DONT'S Of Selecting A Forex Currency Trading Course

First: Don't ever enroll in a course that doesn't offer a very easy way to cancel and refund your money if you don't like the curriculum.

Second: Don't ever enroll in a course that doesn't give you at

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least an 8 week guarantee. Then make sure you study very hard for those 8 weeks to decide if the course is right for you.

Third: Don't ever enroll in a course that uses trading robots. No robot can consistently chip a profit out of the market. Markets are a combination of order and chaos. There's just enough order to see clear trends and technical relationships. But it's always the background fundamentals that are driving the markets. That means that these markets have a combination of order and chaos to them. You tap into the order with technical analysis. But you deal with the chaos through fundamental education.

In The Words of the Late Great Stanley Kroll

One of my favorite traders is the late Stanley Kroll who turned $18,000 into $2,985,138 from 1971 to 1974. He focused on educating himself and worked hard at mastering the art of trading. He left the markets a multimillionaire who traveled the world sailing his yacht.

Make sure you paste his sage advice on your computer:

The Secret Of Success: knowledge of the markets and of particular commodities [currency Forex trading pairs], an understanding of both the fundamental and technical aspects of each market, fast reflexes and a good sense of timing, a bit of luck, and a great deal of patience and courage. Add lots of experience, a few "burns," and a goodly number of "killings," and you're on your way.

If you're going to do ... just do it!

-Doc Brown

Doc Brown is the author of the #1 rated course on Forex trading, "Doc Brown's Futures, Forex, and Options Autopilot, and a regular contributing author to PitNews Magazine.

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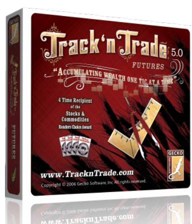

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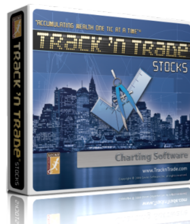

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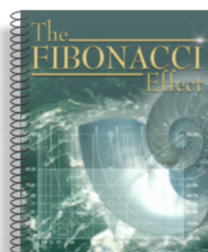
Trading Education

It seems that we spend 90% of our time studying and trying to figure out the best timing techniques for market entry, but we spend very little time actually learning the techniques of exiting the market. Getting into a market is easy, but getting out of the market, with a profit, is the true test of a traders skill.

Learn More



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